



SF 496 – Biodiesel Retail and Production Tax Credits (LSB 1834SV)
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Fiscal Note Version – New

Description

Senate File 496 amends and extends the Biodiesel Blended Fuel Tax Credit and creates a biodiesel production incentive financed through a new General Fund appropriation. The Bill:

- Eliminates the requirement that diesel gallon sales must meet a threshold of at least 50.0% biodiesel to qualify for the credit and eliminates the requirement that the tax credit be calculated separately for each retail site owned by the same company.
- Changes the per-gallon tax credit from the current rate of three cents per gallon for B-2 and above to:
 - Two cents per gallon for B-5 through B-9
 - Four cents per gallon for B-10 and above
- Extends the sunset date for the tax credit by three years, to January 1, 2015.
- Creates a per gallon production incentive for each gallon of pure biodiesel produced in the State. The incentive is paid through a General Fund appropriation and equals:
 - Three cents per gallon produced in CY 2012 and CY 2013
 - Two cents per gallon for CY 2014

The changes are effective January 1, 2012.

Assumptions – Tax Credits

- The Department of Revenue 2009 Retailers Motor Fuel Gallons Annual Report states that a total of 205.2 million gallons of B-2 or higher biodiesel gallons were sold at retail in CY 2009, according to reports filed with the Department by retailers.
- For CY 2012 through CY 2014, biodiesel blended gallons sold at retail are assumed to be:
 - CY 2012 = 220.0 million
 - CY 2013 = 236.0 million
 - CY 2014 = 252.0 million
- For each calendar year, the percent of gallons sold, by biodiesel content, is assumed to be:
 - B-4 or lower = 25.0%
 - B-5 through B-9 = 70.0%
 - B-10 and up = 5.0%
- Tax credits earned in CY 2012 are assumed to impact FY 2012 (20.0%) and FY 2013 (80.0%). CY 2013 and CY 2014 sales will have the same pattern.
- The volumes of pure biodiesel involved in this incentive are insufficient to significantly impact the calculation of the Ethanol Promotion Tax Credit.
- The \$1.00 per gallon federal blender's credit, set to expire December 31, 2011, will be extended to at least December 31, 2014.

Fiscal Impact – Tax Credits

Redemption by taxpayers of the revised and extended refundable Biodiesel Blended Fuel Tax Credit is projected to decrease net General Fund revenue by \$11.3 million over four fiscal years. See the following chart for more detail.

Biodiesel Blended Fuel Tax Credit Extension and Revision					
Calendar Year	Biodiesel Blended Gallons	Biodiesel Gallons B-5 to B-9	Biodiesel Gallons B-10 or Higher	Tax Credit General Fund Revenue Reduction	Fiscal Year
CY 2012	220,000,000	154,000,000	11,000,000	\$ 704,000	FY 2012
CY 2013	236,000,000	165,200,000	11,800,000	3,571,200	FY 2013
CY 2014	252,000,000	176,400,000	12,600,000	3,827,200	FY 2014
	N/A	N/A	N/A	3,225,600	FY 2015
	708,000,000	495,600,000	35,400,000	\$ 11,328,000	

Over the course of three calendar years, this fiscal estimate translates to 28.3 million gallons of pure biodiesel sold as part of B-5 or higher blends. The \$11.3 million in tax credits equates to \$0.40 per gallon of pure biodiesel consumed as a component of those B-5 or higher blends.

The Biodiesel Blended Fuel Tax Credit is refundable, so it does not impact the Local Option Income Surtax for schools.

Assumptions – Production Incentive Appropriations

- The current biodiesel production capacity in Iowa is approximately 315 million gallons per year. For CY 2012 through CY 2013, capacity utilization is assumed to be:
 - CY 2012 = 40.0%, 126.0 million gallons
 - CY 2013 = 50.0%, 157.5 million gallons
 - CY 2014 = 60.0%, 189.0 million gallons
- Claims are required to be filed quarterly, within one month of the conclusion of a calendar quarter. It is assumed the incentive will be paid before the end of the succeeding month. One quarter of calendar year 2012 will be paid from the FY 2012 standing appropriation and three quarters from the FY 2013 appropriation.
- The \$1.00 per gallon federal blender's credit, set to expire December 31, 2011, will be extended to at least December 31, 2014.

Fiscal Impact – Production Incentive Appropriations

The Bill establishes a standing unlimited appropriation to pay the production incentives. The cost of the incentives to the General Fund is assumed to equal:

- FY 2012 = \$ 945,000
- FY 2013 = \$4,016,000
- FY 2014 = \$4,489,000
- FY 2015 = \$2,835,000

The projected amount of the standing unlimited appropriation depends almost exclusively on the capacity utilization of the existing biodiesel plants in Iowa. While those plants as a group are currently assumed to be operating below 50.0% of capacity, this situation could change

significantly by CY 2013 and CY 2014. The theoretical maximum (100.0% capacity utilization) General Fund liability is approximately \$9.5 million in CY 2013 and \$6.3 million in CY 2014.

Sources

Department of Revenue 2009 Retailers Motor Fuel Gallons Annual Report
Iowa Renewable Fuels Association (Urbanchuk, 2011)
Legislative Services Agency Analysis

March 10, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
